SUBCOMMITTEE NO. 4 Agenda

Michael Machado, Chair
Tom McClintock
Christine Kehoe

Agenda – Part B

Wednesday, May 17, 2006
9:30 a.m.
Room 113

Consultant: Brian Annis

May Revision and Open Issues – Select Departments

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Department Budgets Proposed for Consent / Vote Only

2100 Department of Alcoholic Beverage Control

The Department of Alcoholic Beverage Control (ABC) was heard by the Subcommittee on March 8 and April 20 and all Governor's Budget requests were acted upon. The Administration has since submitted a May Finance Letter request.

1. **Licensing and Compliance System (LCS) – Reversion (May Finance Letter).** The Administration requests a new budget item to revert $1.3 million of unexpended special funds for the Licensing and Compliance System Project. This information technology project was originally approved by the Legislature with the 2004-05 Budget Act. Litigation by an unsuccessful bidder will delay the award of the contract into 2006-07, or beyond. The new system is replacing the existing 1993 system (the California Alcoholic Beverage Information System (CABIN)), which faces both hardware and support limitations, and limits new functionality.

   Staff Comment: The reversion would affect funding provided for the project in 2005-06. The Governor's Budget for 2006-07 includes $2.4 million for this project, which would not be affected by this proposal. The Administration indicates that if litigation is resolved in the near future, the project will be able to move forward with the funding already included for 2006-07. To restore complete project funding, the Administration intends to request to restore the reverted funding in 2007-08.

   Staff Recommendation: Approve the request.

   Vote:

Department Budgets Proposed for Discussion / Vote

0520 Secretary for Business, Transportation and Housing

Budget Changes proposed for Consent / Vote Only

1. **Chrome Plating Program Implementation (Trailer Bill Language).** On March 8, the Subcommittee approved an Administration request for expenditure authority of $278,000 for state operations and $250,000 for local assistance (all special fund) for the Chrome Plating Pollution Prevention Program, established by AB 721 (Chapter 695, Statutes of 2005, Nunez). The Assembly took the additional action of adopting clean-up trailer bill language that amends the program to cover "metal" plating and not just "chrome" plating.

   Staff Comment: Staff understands that restricting the program to chrome-only would narrow the number of applicants below what was anticipated last year. The trailer bill revisions would restore the program to the pollution abatement and cost level that was intended when the Legislation was enacted.

   Staff Recommendation: Conform to the Assembly action to adopt clean-up trailer bill language.

   Vote:

Issues for Discussion / Vote

1. **Manufacturing Technology Program (Staff Issue).** The Governor's Budget includes reimbursements of $2.0 million to support the Manufacturing Technology Program (MTP). This program supports the efforts of the Corporation for Manufacturing Excellence (MANEX) in Northern California and the California Manufacturing Technology Center (CMTC) in Southern California. These entities provide consulting services to small manufacturers to improve their efficiency and to retain these firms in the state. Staff has learned that the Agency did not receive the budgeted reimbursements in 2004-05 or 2005-06, and is unlikely to receive the reimbursements in 2006-07.

   Staff Comment: The MTP was part of the Technology, Trade and Commerce Agency that was eliminated in 2003-04. The program was moved to the BT&H agency and was funded in 2003-04 with reimbursements of $2.1 million from the Employment Training Panel (ETP) via budget bill language in the Employment Development Department budget requiring the transfer. ETP funding is intended for workforce training, not employer consulting, so the language requiring ETP funding was deleted for 2004-05. Without the ETP funding, the MTP has not found another source of reimbursement funds to support MANEX and CMTC with State funds.

   Since the budget reimbursements are unlikely to be realized to support the Manufacturing Technology Program, the Subcommittee may want to consider adding General Fund support for the program. Staff understands that MANEX and CMTC have presented a proposal for $3 million in General Fund support with $2.1 million available to CMTC and $900,000 available to MANEX. The entities would then contribute $300,000 each to consulting services in the Central Valley.

   Staff Recommendation: Augment General Fund by $3.0 million to restore State support for the MTP and add the following budget bill language:

   Item 0520-101-0001 - add Provision 1: *Of the funding appropriated by this item, $900,000 shall be allocated to a qualified grantee in Northern California and $2,100,000 shall be allocated to a qualified grantee in Southern California. Each grantee shall expend $300,000 to support the program in the California Central Valley.*

   Vote:

2. **California Partnership for the San Joaquin Valley (May Finance Letter).** The Administration requests one-time funding of $5 million (General Fund) and 2.0 limited-term positions to support implementation of the San Joaquin Valley Strategic Action Proposal. The funding would be split with $2.5 million supporting BT&H operations costs for the program and $2.5 million supporting a competitive grant program.

Detail: Established by Executive Order on June 24, 2005, the California Partnership for the San Joaquin Valley was created to address the economic challenges in the eight counties that comprise the San Joaquin Valley Region. Nine elected officials, nine civic leaders, and eight cabinet agency secretaries were appointed to direct the Partnership. The Executive Order requires preparation of a Strategic Action Proposal to improve the economic well-being and quality of life in the San Joaquin Valley. The Governor's Executive Order requires preparation of a Strategic Action Proposal by October 2006.

Staff Comment: Given that the Strategic Action Proposal is not complete, the Subcommittee may want to consider the following budget bill language to improve oversight and accountability.

Provision (_) to Item 520-001-0001. Of the funds appropriated in this item, $2,500,000 is allocated to administer the California Partnership for the San Joaquin Valley (Partnership). No funds shall be expended for this purpose until the Partnership (1) adopts the Strategic Action Proposal, and (2) submits to the Joint Legislative Budget Committee a report detailing the governance and organizational structure for the Partnership.

Provision (_) to Item 520-101-0001. Of the funds appropriated in this item, $2,500,000 is allocated to administer a competitive grant program within the California Partnership for the San Joaquin Valley (Partnership). No funds shall be expended for this purpose until the Partnership, (1) adopts the Strategic Action Proposal, and (2) submits to the Joint Legislative Budget Committee a report detailing the governance and organizational structure for the Partnership, and (3) provides a 1 to 1 local match for any amount of grants awarded. Up to fifty percent of the local match may be provided from federal funds.

Staff Recommendation: Approve the request with the addition of the budget bill language.

Vote:

2400 Department of Managed Health Care

The Department of Managed Health Care (DMHC) was heard, by the Subcommittee on March 8. Two issues were left open and a May Finance Letter was submitted by the Department.

Issue Proposed for Consent / Vote-only

1. **Staffing Augmentation for Legislative Analysis & Support (BCP #3).** The Department requests $165,000 (special fund) and authority to add two permanent positions (an Associate Governmental Program Analyst and an Office Technician) for legislative analysis and support workload.

   Background/Detail: The Department indicates that the Office of Legal Services, which includes the Legislative Division, originally consisted of 31 authorized positions, but, through vacant position eliminations, was reduced to 25 positions. The Legislative Division has always had only one staff position, but the Department indicates other staff time has been redirected in recent years to handle the workload, and that continued redirection carries a "very real risk" of missing statutory and/or court-imposed deadlines. In 2003 and 2004, 1,998 staff hours and 4,979 staff hours were respectively used for legislative workload. The DMHC expects about 8,000 hours of legislative workload in 2005-06.

   Staff Recommendation: Approve the request.

   Vote:

Issues for Discussion / Vote

1. **Provider Oversight Program (BCP #1).** The Department proposes to augment funding by $3.8 million and 17 positions to conduct financial solvency oversight of Risk Bearing Organizations (RBOs) and ensure prompt and sufficient payment of health care provider claims. The positions would staff the proposed Office of Provider Oversight which would include a Provider Solvency Unit, a Provider Complaint Unit and an associated Provider Oversight Management Group.

   Background: SB 260 (Chapter 529, Statutes of 1999, Speier), established the Financial Sovency Standards Board (Board) and placed certain financial standards on RBOs and required DMHC to adopt related regulations. The initial regulations were challenged in court, and final regulations were not approved by the Office of Administrative Law until 2005. DMHC indicates that three positions were added for SB 260-related activity in 2002-03; however, two of the positions were eliminated due to vacant position reductions.

   AB 1455 (Chapter 827, Statutes of 2000, Scott) established new requirements for prompt and fair payment of provider claims by health plans, and authorizes DMHC to impose sanctions on a plan when an unfair payment pattern is found. Following the adoption of regulations, the Department established the Provider Complaint Unit (PCU) “pilot” in September 2004 with borrowed and temporary resources.

   Staff Comment: This issue was heard on March 8 and left open for further discussions concerning the Department’s administration of provider complaints. To address some of the concerns raised, the Department has agreed to post specified performance measures on its website. The following trailer bill language, which was developed in cooperation with the DMHC and the California Chapter of the American College of Emergency Physicians (a major provider group), would specify process and reporting requirements:

   Placeholder Trailer Bill Language:

   SECTION 1. Section 1371.395 is added to the Health and Safety Code to read:
   (a) The “Provider Complaint Unit” is hereby created within the department to further the intent of AB 1455 (Chapter 827, Statutes of 2000) to ensure that health care service plans and capitated providers do not engage in demonstrable and unjust payment patterns.
   (b) For each complaint submitted by a provider to the department, the department shall request a complete list of additional documentation or information reasonably necessary for the review and investigation of the complaint.
   (c) For each complete complaint submitted by a provider to the department, the department shall, within 60 calendar days, complete its review of the complaint unless the Director determines good cause exists for not completing the review. When the review is completed, the complaint shall either be closed or forwarded to the Department’s Office of Enforcement for appropriate action.
   (d) For the purposes of this section, “complete complaint” means that the provider submits a complaint through the Department’s online provider complaint system and

submits to the Department all of the documentation necessary for the Department to complete its review.
(e) Beginning January 1, 2007 and at least quarterly thereafter, the department shall publish on its website a report. The department shall report the information by calendar month the complaints that were received through the department's online provider complaint system, and the report shall include the following.
(1) The number of provider complaints received and closed through the department's online provider complaint system.
(2) The average time for the Provider Complaint Unit to complete its review of complaints submitted through the department's online complaint system.
(3) The number of complaints that have been closed by the Provider Complaint Unit by reason for closure. The reasons for closure shall include: non-jurisdiction; duplicate; provider non-responsive to request for information or documentation; complaint resolved; and referred to enforcement.
(4) The number of complaints received and closed for each dispute category identified in the department's online provider complaint system.
(5) For each dispute category, the number of complaints submitted by provider type as identified in the Department's on-line provider complaint system.
(6) For each dispute category, the number of complaints submitted against full service plans, specialized plans, and capitated providers
(7) The amount of additional reimbursement recovered for providers.
(8) The final results of any formal enforcement actions resulting in administrative penalties, fines or corrective action plans.
(9) Verification of a payer's failure to implement a corrective action plan as a result of an audit conducted by the department.
(f) Beginning January 1, 2007 and every January 1 and July 31, thereafter, the department shall report on its website complaints forwarded from the Provider Complaint Unit to the Office of Enforcement . This report shall include:
(1) the number of complaints referred from the Provider Complaint Unit to Office of Enforcement by alleged statutory violation.
(2) the number of complaints referred from the Provider Complaint Unit to the Office of Enforcement by calendar month;
(3) the number of complaints closed by the Office of Enforcement that were referred from the Provider Complaint Unit;
(4) the number of complaints referred from the Provider Complaint Unit that resulted in formal enforcement action and the type of action taken by Office of Enforcement.
(g) Beginning January 1, 2007 information posted on the department's website related to enforcement actions shall be maintained on the website for at least 5 years from the date of posting.
(h) Nothing in this section is intended to limit a provider's ability to advocate on behalf of an enrollee through the department's HMO Help Center.

Staff Recommendation: Approve the BCP and the trailer bill language.

Vote:

2. **Health Plan Oversight Division Staffing (May Finance Letter):** The Administration requests the addition of 10.0 permanent positions and 2.0 limited-term positions to be funded within existing budgeted resources. The request would continue most of the 13.0 administratively-established positions added in 2005-06. The 12.0 requested positions would increase staffing in the Health Plan Oversight Division to a total of 36.9. The Department indicates these positions are needed to continue efforts to improve the review of required health plan filing submissions in order to meet market and industry demands and to provide appropriate oversight necessary for DMHC to fulfill its statutory responsibilities.

   March 8 Hearing. At the March 8 hearing, the Subcommittee reduced the DMHC budget by $1.0 million (special fund) because the Department appeared to be over-budgeted for authorized positions. The Governor's Budget display titled "Changes in Authorized Positions" indicated that 13.0 positions were administratively added to the Department's budget in 2005-06. Pursuant to Budget Control Section 31.00, the Administration does have the authority to add positions within the same fiscal year if the budgeted resources are sufficient. To continue the positions beyond a fiscal-year, departments must submit a BCP or Finance Letter request (as specified in Control Section 31.00). A full-year cost for the 13 added positions is approximately $1.0 million. Since DMHC was able to fund 13.0 positions within existing budget resources, and the Department did not request the continuation of the positions in a BCP, it appeared that the 2006-07 budget was over-appropriated by about $1.0 million. The Subcommittee expressed a willingness to consider a restoration of the funding, if a Finance Letter was submitted to justify the need.

   Detail: The Department indicates that approval of this request would allow the department to meet the following benchmarks:
   - Reduction in approval time for new license applications from over 1 year to six months or less.
   - Reduction in approval time for material modifications of plan operations from over six months to 90 days or less.
   - Reduction in approval time for new product filings by amendment from four months, or more, to under 60 days.

   LAO Recommendation: The LAO recommends that one of the requested 12 positions be rejected due to lack of justification – specifically, the Health Program Manager II position. This is an additional management position beyond what was administratively established in 2005-06 and the two supervisors should be sufficient.

   Staff Recommendation: Consistent with the LAO recommendation, approve all requested positions except the Health Program Manager II, and restore the $1.0 million the Subcommittee cut on March 8.

   Vote:

4. **Consumer Participation Program Sunset (Staff Issue).** Legislation enacted in 2002 (SB 1092, Chapter 792, Sher), provides intervener funding for consumer groups that advocate on regulatory proceedings at the Department of Managed Health Care. The program is funded out of the licensing fees paid to DMHC and is capped at $350,000 annually. The program sunsets on January 1, 2007.

   Staff Comment: The DMHC indicates that advocates are not reimbursed until the regulatory process is complete, which can take up to several years. Several regulation packages are currently moving through the process. As of March 2, 2006, no funding had been awarded, and only one request for $7,268 has been received. DMHC never received an augmentation for this program and, as such, would absorb any costs within existing budgeted resources. Given that the long regulatory process has delayed the implementation of the program and associated claims and payments, the Subcommittee may want to consider extending the program sunset by five years – to January 1, 2012.

   Staff Recommendation: Adopt placeholder trailer bill language to amend Section 1348.9 of the Health and Safety Code to extend the program sunset to 2012.

   Vote:

2640 Special Transportation Programs

The Special Transportation Program provides funding to the State Controller for allocation to regional transportation planning agencies for mass transportation operations and projects. Revenue comes from the sales tax on diesel fuel, a share of Proposition 42 revenues, and the Proposition 111 piece of the sales tax on gasoline.

The Governor's January Budget proposed funding of $235.0 million for Special Transportation Programs.

Discussion / Vote Issues

1. **Budget Adjustment to Reflect New Revenue Projections (May Finance Letter):** The May Revision requests an augmentation of $36.2 million based on the updated Administration forecast of gasoline and diesel sales tax revenues. Of this amount, $34.8 million is attributed to an increase in diesel fuel sales taxes and $1.4 million is from Proposition 42 revenues. The appropriation for this item refers to the provisions of Section 99312 of the Public Utilities Code, such that the final allocation of revenue under this item ties to actual revenue received and therefore will ultimately be different than the amount included in the Budget Act.

   Staff Comment: The adjusted appropriation amount of $271 million represents a significant increase from the $201 million in the 2005 Budget Act. However, the Administration's May Revision does not include expenditures in this item for "spillover" revenue. The "spillover" is a portion of the gasoline sales tax that is received on top of Proposition 42 revenue. Under existing statute, a portion of the 2006-07 spillover, and all spillover revenue in 2007-08 and beyond, would go to the Public Transportation Account (PTA) – with half of that going to Special Transportation Programs.

   Under the Administration's May Revision proposal, $172 million in spillover revenue that would otherwise be allocated to Special Transportation Programs under this item, would instead fund debt service on existing and future transportation general obligation bonds. Staff understands that the Subcommittee is not supportive of the Administration's spillover proposal and that issue is accordingly excluded from the Caltrans section of the Agenda. Consistent with that direction, this item should be adjusted to reflect current law (instead of the Governor's spillover proposal).

   Staff Recommendation: Approve the May Revision request, but additionally augment the funding to reflect the spillover revenue due under current law (an increase of approximately $172 million above the May Revision request).

   Vote:

2660 Department of Transportation

Vote-Only Issues

1. **Tort Payments (May Revision Letter).** The Administration requests a permanent increase of $12.2 million (State Highway Account) to fund tort payments. In a Section 26.00 letter dated March 6, 2006, the Department of Finance reported to the Joint Legislative Budget Committee (JBLC) that Caltrans has requested a shift of funding among programs of $24.8 million in order to pay higher-than-budgeted tort claims in 2005-06. While the budget for tort claims has remained unchanged in recent years at $41.4 million, Caltrans has had to shift budget resources in four of the past six years to pay tort claims. The historical tort budget funding and actual expenditures are outlined in the following table.

	Budget Funding	Actual Expenditures	Shortfall
2000-01	$41.4	$65.1	$23.7
2001-02	41.4	62.4	21.0
2002-03	41.4	37.5	-3.9
2003-04	41.4	32.7	-8.7
2004-05	41.4	50.3	8.9
2005-06*	41.4	66.7	25.3
Average	**$41.4**	**$52.5**	**$11.1**

* Estimate

Staff Comment: The Subcommittee heard this issue at the March 30, 2006 hearing and requested that Caltrans reevaluate its 2006-07 tort funding need. Since tort claims have averaged more that $11 million over budgeted levels over the past six years, it seems likely that the 2006-07 need will exceed the $41.4 million in the January Governor's Budget.

The Administration also requests the following budget bill language to transfer any tort funds unencumbered as of April 1, 2007, for capital outlay expenditures for State Highway Operations and Protection Program (SHOPP):

Item 2660-001-0042, Provision (_). Of the funds appropriated in Schedule (5) of this item, $48,600,000 is for the payment of tort lawsuit claims and awards. Any funds for that purpose, which are unencumbered as of April 1, 2007, may be transferred to Item 2660-302-0042. Any transfer will require the prior approval of the Department of Finance.

Staff Recommendation: Approve the Finance Letter request.

2. **Expenditure of Increased Proposition 42 Revenue (May Finance Letter):** The Administration requests budget adjustments to reflect the new forecast of Proposition 42 revenues in 2006-07. The Department of Finance projects an increase of $13.6 million relative to the Governor's Budget – to a new total of $1.420 billion. The following budget adjustments are requested for local assistance and capital outlay, which total to $13.6 million:

    - Increase Item 2660-302-0046 by $1,356,000.
    - Increase Revenue and Taxation Code Section 7104 by $2,061,000 for local assistance.
    - Increase Revenue and Taxation Code Section 7104 by $8,786,000 for capital outlay.
    - Increase Item 2640-101-0046 by $1,356,000.

    Staff Recommendation: Approve the request.

    Vote:

Discussion / Vote Issues

1. **Repayment of Proposition 42 Loans**. The Administration proposes early repayment of $920.0 million of the $1.258 billion in Prop 42 funds borrowed by the General Fund in 2004-05. The allocation of this repayment is statutorily specified; however, the Administration proposes to amend statute to shift a portion of this early repayment from the Traffic Congestion Relief Program (TCRP) and the Public Transportation Account (PTA) to the State Transportation Improvement Program (STIP) and local streets and roads. After full repayment in 2007-08, the final allocation would be consistent with current law. The repayment of $920 million, under current statute and under the Governor's proposal, is as follows:

$920 Proposition 42 Loan Repayment ($ in millions)		
	Current Statute	**Governor's Proposal**
Traffic Congestion Relief Program	$678.0	$410.0
Local streets and roads	$96.8	$255.0
State Transportation Improvement Program (STIP)	$96.8	$255.0
Public Transportation Account for State Transit Assistance (STA)	$24.2	-
Public Transportation Account for STIP	$24.2	-
TOTALS	**$920.0**	**$920.0**

The proposed repayment is associated with one of three outstanding transportation loans to the General Fund. The following table illustrates the three loans with historical and anticipated loan repayment dates.

Summary of Transportation Loans to the General Fund ($ in millions)					
Transportation Loans to the General Fund	**Loan Amount**	**Amount repaid to date**	**Repayment Proposed in 2006-07**	**Outstanding amount (after 2006-07) ***	**Current-law due date**
►Traffic Congestion Relief Fund loans (from 2001-02 & 2002-03)	$1,383	$183	$1,000	$200	none
►2003-04 Propositions 42 loan	868		0	868	June 30, 2009
►2004-05 Proposition 42 loan	1,258		920	338	June 30, 2008
Total	$3,509	$183	$1,920	$1,406	

* Interest is required, but not included in these calculations

Bond Package: The Legislature recently enacted a package of bills to place infrastructure bonds on the November 2006 ballot. Senate Bill 1266 includes $19.9 billion in bonds for transportation. Senate Constitutional Amendment 7

(SCA 7) further restricts the ability of the Governor and the Legislature to suspend Proposition 42 during a fiscal crisis and provides for repayment of all past Proposition 42 loans no later than June 30, 2016. SCA 7 specifies annual repayments shall be no less that one-tenth of the amount due and authorizes the Legislature to provide, by statute, for the issuance of bonds by state or local agencies that are secured by the minimum payments. No legislation was enacted as part of the bond package that changes the current statute requirements for loan repayment, which are indicated in the above table.

Staff Comment: In determining the appropriate amount of General Fund resources to direct to Proposition 42 loan repayment, the Subcommittee may want to consider the enactment of SB 1266 and SCA 7, as well as the additional spillover revenue that will go to the Public Transportation Account and the Special Transportation Program (see agenda page 9) under current law. A 2006-07 repayment at the level of $460 million would still provide a significant prepayment of the amount due in 2007-08 and would more than double the annual repayment amount required in SCA 7.

Staff Recommendation: Approve repayment at the level of $460 million with the requested repayment allocation proportionally reduced (approximately $205 million to the Traffic Congestion Relief Fund, $127.5 million to local streets and roads and $127.5 million to the STIP).

Vote:

2. **Repayment of TCRF Loans from Tribal Gaming Revenues (April Finance Letter and Trailer Bill Language)**. Under current statute, repayment of approximately $1.2 billion in loans made from the Traffic Congestion Relief Fund (TCRF) to the General Fund in 2001-02 and 2002-03, shall be repaid from revenues received from tribal gaming (see also the loan summary table in the prior issue). Statute provides for the issuance of tribal gaming bonds to accelerate the repayment of the loans. The Governor's January Budget assumed $1.0 billion in tribal gaming bonds would be sold in 2005-06. Due to ongoing litigation, an April Finance Letter moves the assumed bond sale from 2005-06 to 2006-07 and requests related budget changes. In addition, the April Letter requests budget changes to reflect the transfer of approximately $151.0 million in existing tribal revenue to the TCRF as partial loan repayment. Related to this request, the Administration requests trailer bill language to update interest estimates and to remove the statutory due dates for the repayment of loans from the State Highway Account (SHA) and the Public Transportation Account (PTA) to the TCRF.

Detail / Background: A total of $1.6 billion was transferred from the General Fund to the TCRF in 2000-01 for projects in the newly-established Traffic Congestion Relief Program. As a result of General Fund shortfalls in 2001-02 and 2002-03, a total of $1.383 billion was loaned back to the General Fund. To provide funding for Traffic Congestion Relief Projects, intra-transportation loans were made: approximately $563 million was loaned from the SHA to the TCRF (with repayment due by June 30, 2007); and $275 million was loaned from the PTA to the TCRF (with repayment due by June 30, 2008).

In concert with the 2004-05 budget, the Governor signed gaming compacts with five tribes that would direct a portion of gaming revenue to the State for the purpose of repaying loans to the TCRF. In turn, the funding paid to the TCRF would be used to support Traffic Congestion Relief Program project, repay the loans to the SHA and PTA, and repay other loans. Statute enacting the compacts (AB 687, Chapter 91, Statutes of 2004) prioritized the TCRF allocations, such that the first $457 million paid to TCRF from tribal gaming revenues will be used to repay the SHA loan.

Staff Comment. Litigation continues to delay the issuance of bonds, and deletion of SHA and PTA due dates seems reasonable given this litigation and statutory direction that all TCRF loans shall be repaid with tribal revenues. AB 687 allows the Director of Finance to transfer quarterly tribal revenues of approximately $25 million to the TCRF – to the extent these revenues are not needed to repay bonds. By the end of 2005-06, the Department indicates about $151 million in tribal payments will be in the available for transfer to TCRF. This transfer would not affect the ability of the state to issue bonds in the future, which would be repaid with future tribal payments.

Staff Recommendation: Approve the Finance Letter and two related trailer bills.

Vote:

3. **Trailer Bill Language.** The Administration requests the following trailer bill language, which is in addition to the language included in other agenda issues:

- Language to clarify legislative intent related to 2006-07 gasoline sales tax transfers for the Bay Bridge project.
- Language to clarify legislative intent related to the use of "spillover" revenues which are suspended by statute and not transferred to the Public Transportation Account.
- Language to allow the same budgetary and accounting treatment for the Transportation Deferred Investment Fund (TDIF) that is currently used for the SHA and PTA.

Staff Recommendation: Direct staff to draft trailer bill language in these areas as needed for the purpose of clarification, technical clean-up, and accounting treatment.

Vote:

4. **Non-Article XIX Funds – Transfer to the General Fund.** The Administration requests the transfer of $9.3 million from the State Highway Account to the General Fund to provide General Fund relief. The funds proposed for transfer are not subject to the restrictions of Article XIX of the Constitution, nor are they subject to Federal Highway Administration control.

Detail: The Department provided the following table that details the revenue sources for the non-Article XIX revenue. Under Street and Highway Code Section 183.1, the revenue is transferred annually from the State Highway Account to the Public Transportation Account. The 2004-05 revenue (which determines the 2005-06 transfer to the Public Transportation Account) is high due to the sale of some high-priced Caltrans properties. The revenue available for the 2006-07 transfer is anticipated to be $51.5 million, with $9.3 million transferred to the General Fund, and $42.2 transferred to the PTA in accordance with Section 183.1. The budget bill notes that the transfer to the General Fund is intended to constitute a reimbursement for debt service payments related to past transportation general obligation bonds. Similar transfers to the General Fund were approved for 2003-04 and 2004-05, but no transfer was proposed or enacted for 2005-06.

SHA Section 183.1 Proceeds Transfer (Actuals)
($ in millions)

		2000/01	2001/02	2002/03	2003/04	2004/05	2005-06
141200	Sales of Documents	$0.962	$0.927	$0.679	$0.549	$0.254	
151200	Condemnation Deposits	4.216	3.091	1.750	$1.889	$1.141	
152200	Rental of State Property	42.097	38.836	40.581	$32.440	$36.719	
152300	Miscellaneous Revenue from Use of Property/Money	23.786	10.888	14.512	$18.423	$46.576	
161000	Escheat Revenue	0.300	0.345	0.323	$0.585	$0.629	
161400	Miscellaneous Revenue	11.892	5.113	2.549	$2.770	-$4.390	
	Total Section 183.1 Proceeds	$83.254	$59.200	$60.395	$56.656	$80.930	
Transfer to:							
	T00046 Public Transportation Account per Streets and Highways Code 183.1 (following year)		$83.254	$59.200	$60.395	$56.656	$80.930

Staff Recommendation: Approve the request.

5. **Maintenance Funding.** The Administration requests a permanent increase of $105.3 million for highway infrastructure preservation. The Department's *2005 Five-Year Maintenance Plan* described the existing maintenance backlog and proposed to augment the State Highway Operation and Protection Program (SHOPP) by $105.3 million. This augmentation is not mentioned in the budget documents; however, Caltrans indicates the increase was built into the SHOPP appropriation. Historically, this preservation work would be budgeted and staffed in the Maintenance Program. Under the Administration's proposal, the work would be budgeted and staffed in the Capital Outlay Support Program. As such, no new positions are budgeted for this workload – instead staffing changes would be included in the May Revision Finance Letter for the zero-based Capital Outlay Support staffing.

   Staff Comment: This issue was heard at the March 30 hearing. The Chair indicated support for the staff recommendation; however no action was taken at the request of Caltrans. The proposed budget represents both an augmentation and workload shift, from the Maintenance Program to the SHOPP (Capital Outlay Support Program).

   Caltrans indicates the **advantages** of the shift are: (1) increased expenditure flexibility for the Department and the California Transportation Commission (CTC); and (2) an improved workload match for Engineers in the Capital Outlay Program versus the Maintenance Program.

   Staff sees the **disadvantages** of the shift are: (1) reduced legislative oversight (Budget Change Proposals are submitted for Maintenance Program augmentations, but not for SHOPP); (2) additional time for legislative position review (new positions for the Maintenance Program are generally detailed with the January 10 Governor's budget, while Capital Outlay Support positions are detailed in the May Revision); and (3) budget consistency (since the shifted "preservation" workload has historically been included in the Maintenance Program, year-over-year budget comparisons will be less relevant).

   LAO Recommendation: In the *Analysis of the 2006-07 Budget Bill*, the LAO recommends that the Legislature restore budget bill language which the Administration omitted that segregates funding for major pavement maintenance contracts so the funding cannot be redirected for another purpose:

   Of the funds appropriated in this item, $76 million is for major maintenance contracts for the preservation of highway pavement and shall not be used to supplant any other funding that would have been used for major pavement maintenance.

   Staff Recommendation: Decrease the SHOPP appropriation by $105.3 million and increase the Maintenance appropriation by $105.3 million. Approve the LAO proposed budget bill language.

   Vote:

6. Capitol Outlay Support (COS) Project Delivery Workload (May Finance Letter). The Administration requests a net reduction of $39.3 million (special funds and federal funds) and 412 full time equivalents (including 215 staff positions (measured in personnel years (PYs)), cash overtime (62 PY equivalents), and contract staff (135 PY equivalents)) to deliver planned baseline COS workload during the budget year.

Detail: This request includes the transfer of $8.1 million in savings from COS-Stormwater related activities to the Maintenance Program for litter removal and bridge paint containment. This request also includes a transfer of $185.0 million from the Transportation Investment Fund to the State Highway Account in order to pay for COS workload resulting from the funding of Proposition 42. This transfer will permit additional State Highway Account funds to be spent on projects in the State Highway Operation and Protection Plan. This element of the request will require changes to the following items:

LAO Recommendation: The LAO is concerned that Caltrans will not be able to achieve adequate COS staffing levels in order to deliver bond-funded projects in a timely manner. Accordingly, the LAO recommends the Subcommittee adopt the following Supplemental Report Language:

<u>2660-001-0042 — Department of Transportation</u>

Upon voter approval of the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, the Department of Transportation shall by March 1, 2007 provide the Joint Legislative Budget Committee with a multiyear plan for how it intends to position itself to efficiently utilize bond funds to deliver transportation projects. The report shall:

- *Provide an estimate of the level of personnel resources that will be necessary to deliver transportation capital projects funded by the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. This estimate shall break out required personnel resources by fiscal year through 2010-11.*
- *Indicate the personnel-year-equivalent (PYE) composition, including number of state staff, student assistants, cash overtime, and consultants that the department estimates will be used to deliver these projects. The PYE composition shall be estimated for each fiscal year through 2010-11.*
- *Provide data on the attrition (rate and number) of capital outlay support staff, in particular engineering staff — by month for the 18 months preceding this report.*
- *Provide the department's plan for recruiting, training, and retaining employees with respect to anticipated attrition rates. Specifically, the report shall detail actions that the department will take to attract employees, cost effectively train its new workforce, and minimize attrition rates.*

Staff Comment: Caltrans indicates that the COS budget includes $22.5 million and 217 workload resources (positions, overtime position equivalents, and contract out resources) related to the $105 million in Issue #5 from the prior page. The Subcommmittee should conform the action here to the action on Issue #5 – shift

$22.5 million and 217 workload resources to the Maintenance Program, as applicable.

If the Subcommittee revised the Proposition 42 loan repayment amount in Issue #1 on page 12 and 13, adjustment may be warranted to COS staffing. Staff suggests that the Subcommittee take a budget action to make sure the Senate action differs from the Assembly action so this issue would be open in Conference Committee. Any needed adjustments could be made at that time.

Staff Recommendation: Staff recommends the following three actions:
1. Adopt the LAO Supplemental Report Language
2. Shift $22.5 million and 217 workload units to the Maintenance Program (to conform with the staff recommendation on Issue #5 – if that is the action taken).
3. Reduce the requested funding by $1,000 to put the issue into the Conference Committee.

Vote:

7. **Short Term Congestion Relief Projects (April Finance Letter #6).** The Administration requests funding of $40.3 million (State Highway Account - $30 million one-time and $10.3 million ongoing) and 9.0 positions to complete a number of projects over an 18-month period intended to provide short-term congestion relief in selected locations on the state highway system.

Detail: The Finance Letter indicates $20 million in one-time funding would be used on the Interstate 210 corridor in Los Angeles ($13.4 million for metering lights, $1.3 million for new detection stations, and $5.3 million for consulting services including design-build). The Department notes this project would be a model for this type of traffic congestion relief strategy, which could later be expanded to other corridors.

The request includes permanent funding of $6.2 million for the Freeway Service Patrol program. Of the amount requested, $800,000 would be directed to the California Highway Patrol, for their administration of the program (conforming budget action is required for the CHP). The remaining $5.4 million would fund an additional 108,000 tow-truck hours and assist approximately 90,000 motorists. By clearing disabled vehicles more quickly, this program relieves traffic congestion.

The remaining $14.1 million ($4.1 million ongoing) would fund various statewide projects to replace loop detectors, install changeable message signs, install other signal coordination equipment, and maintain existing equipment.

Staff Comment: The Department indicates it has changed its implementation strategy since the Finance Letter was released to utilize traditional procurement instead of design-build. According to Caltrans, a statutory amendment would be needed to use design build, and the Department feels this particular project can be implemented at the same cost and within the same timeframe with traditional procurement.

Staff understands Caltrans now supports revising this proposal to shift $20 million for the I-210 project to the SHOPP appropriation. The SHOPP program would be the more appropriate, and typical, funding process for the project.

Staff Recommendation: Approve the funding request, but shift the $20 million to the SHOPP appropriation so the I-210 project can be funding through a standard SHOPP allocation from the California Transportation Commission.

Vote:

8. **Owner Controlled Insurance Program (BCP #9).** The Administration requests an augmentation of $1.4 million (State Highway Account) and 1.0 position to implement the statewide Owner Controlled Insurance Program (OCIP) as a pilot program with 82 projects. With the OCIP, the Department, as the owner of the highway, would purchase major insurance coverage for its construction projects. Under the current process, Caltrans pays insurance costs indirectly through inclusion of the costs in the contractors' bids. The funding of $1.4 million would only cover the cost of hiring a consultant – the cost to purchase the insurance could exceed $120 million (according to the Caltrans) and the total project costs (including construction, staffing, etc.) would be about $5.2 billion. Caltrans believes the $120 million plus in extra insurance costs would be more than offset through lower bids – the savings is estimated to be in the range of $40 million to $65 million.

LAO Recommendations: The LAO finds that "the cost savings that could be realized through an OCIP are much more uncertain than Caltrans indicates." Accordingly, the LAO recommends a smaller pilot and the following budget bill language (note: this is a revised recommendation from what was included in the LAO's *Analysis of the 2006-07 Budget Bill*):

Budget Bill Language Limiting Size of Pilot:
Up to $1.4 million appropriated in this item is available for support of Caltrans' Owner Controlled Insurance Program to administer insurance coverage for contractors on projects with combined total costs not to exceed $750 million.

Supplemental Report Language:
By April 1 of 2007, 2008 and 2009, respectively, Caltrans shall report to the Joint Legislative Budget Committee and the policy committees on transportation on the following:
- *The type and value of projects included in the pilot.*
- *The amount that Caltrans would have paid contractors for comparable insurance coverage in the absence of an owner controlled insurance program (OCIP), as identified in documentation submitted with contractors' bid statements.*
- *The amount the department paid in insurance premiums, deductibles, program administration, and any other OCIP-related costs incurred during the pilot.*
- *The estimated net cost or benefit of implementing the pilot, as identified by comparing contractors' estimates for insurance costs in the absence of an OCIP to the amount the department paid in insurance-related costs under the OCIP.*
- *An assessment of the projects that were best suited for inclusion in an OCIP and the projects that were least well suited, in terms of cost effectiveness.*

Staff Comment: The Subcommittee heard this issue on March 30, and it was kept open so additional information could be provided. Caltrans provided copies of a June 1999 US General Accounting Office report on transportation OCIPs and a July 2003 California Department of General Services report on office building OCIPs.

US General Accounting Office (GAO) Report

The GAO looked a six transportation projects and reported that OCIPs provided savings of 1 to 3 percent of total project costs (according to project owner estimates). The GAO report also included the following findings and/or comments:

- The major advantages of OCIPs include savings from buying insurance “in bulk,” eliminating duplication in coverage, handling claims more efficiently, reducing potential litigation, and enhancing workplace safety.
- The potential disadvantages of wrap-up insurance include requiring project owners to invest more time and resources in administration.
- A limitation of OCIPs is that projects must be sufficiently large, or contain at least a sufficient amount of labor costs, to make wrap-up insurance financially viable.
- Some contractors dislike OCIPs because it reduces a contractor’s profits from insurance rebates.

<u>California Department of General Services (DGS) Report</u>
The DGS looked at State building facilities construction projects and found that OCIPs reduced State costs in the range of 1 to 2 percent.

Staff Recommendation: Approve the request with the LAO recommended budget bill language and supplemental report language.

Vote:

9. Toll Road In State Park (Staff Issue). On February 23, 2006, the Orange County Foothill/Eastern Transportation Corridor Authority (TCA), a regional transportation joint powers authority established under state law, approved the South Orange County Transportation and Infrastructure Project (also known as the "Foothill South Toll Road") in the San Juan Capistrano-San Clemente region of the Orange County coastal area.

Background: The proposed project is slated to be built through San Onofre State Park and beach, a state park that is home to a popular surfing spot, adjacent to a Native American heritage site, and one of the few remaining coastal open space areas in Southern California. It consists of a six lane toll road that would bisect the coastal foothills from the Oso Parkway approximately 16 miles to Interstate 5 south of San Clemente.

The state Attorney General and various private parties have brought actions in state court to block the project based on claims that the TCA didn't adequately analyze the environmental impacts and alternatives, and on encroachment of Native American sites. Under current law, both Caltrans and the CTC have design review and federal funding authority over the project. To date, neither entity has taken action relative to the project.

Staff Comment. In view of the controversy over this project, and the intervention of the Attorney General in its approval, the Subcommittee may wish to consider adoption of the following budget bill language:

Staff Recommendation: Approve the following budget bill language.

2600-001-0046—For support of CA Transportation Commission, provided that no federal funds may be approved by the commission for the South Orange County Transportation and Infrastructure Project (also known as the "Foothill South Toll Road") in the San Juan Capistrano-San Clemente region of the Orange County until the Department of Transportation and the Department of Parks and Recreation have prepared, completed, and submitted to the Joint Legislative Budget Committee a report that evaluates alternatives to building the project through a state park.

2660-001-0042-- For support of Department of Transportation, provided that no funding may be expended by the department for the review or approval of any documents, including engineering oversight and the preparation or evaluation of environmental documents, for the South Orange County Transportation and Infrastructure Project (also known as the "Foothill South Toll Road") in the San Juan Capistrano-San Clemente region of the Orange County until the department of Transportation and the Department of Parks and Recreation have prepared, completed, and submitted to the Joint Legislative Budget Committee a report that evaluates alternatives to building the project through a state park.

Vote:

2665 High-Speed Rail Authority

The High-Speed Rail Authority (HSRA) was heard, by the Subcommittee on April 20. Three issues were left open and a May Finance Letter was submitted by the Department.

Discussion / Vote Issue

1. **Bond Funding for High-Speed Rail / 2006-07 Budget.** The enacted infrastructure bond package did *not* include any funding for high-speed rail; however, it did *not* remove the existing $9.95 billion rail bond from the November 2006 ballot. Staff understands that discussions are ongoing concerning legislation to postpone the high-speed rail bond vote to 2008 or thereafter. Therefore, uncertainty continues on the appropriate budget for the HSRA in 2006-07.

   Staff Comment: Given the uncertainty related to bond funding for the high-speed rail project, it is difficult to assess the HSRA budget need for 2006-07. The following are some scenarios for HSRA activity and funding:

   - Governor's Budget ($1.3 million) – removes one-time funding, but doesn't further evaluate or "zero-base" the continuing activity for the HSRA.
   - Zero-Based Budget ($1.0 million) – rebases the HSRA budget to remove operating expenses and equipment funding that would not seem necessary if the HSRA is not directed to perform new activities. The HSRA indicates a Inter-departmental Consulting need of about $350,000 (for Attorney General services and budget and accounting services), which is $232,000 less than what is included in the budget. Additionally, postage, travel, and other operating expenses are budgeted significantly higher than actual 2004-05 expenditures. The HSRA indicates they have increased the scope of the tier II EIR/EIS, and this is driving up costs beyond what was originally approved by the Legislature – they propose to redirect operating expenses for this purpose.
   - Next Steps to Construction ($1.3 million plus) – Staff understand that discussions concerning postponement of the 2006 bond vote have also included options for additional non-bond funding for the HSRA.

   LAO Recommendation: The LAO recommends adding provisional budget language that would revert any unexpended 2006-07 appropriation upon enactment of legislation that would postpone, indefinitely, a high-speed rail bond.

   Staff Recommendation: Reduce the HSRA budget by $1,000. (This will place the HSRA into Conference Committee – more information on the 2006 high-speed rail bond may be available in a couple of weeks).

   Vote:

2720 California Highway Patrol

The Department of the California Highway Patrol (CHP) was heard, by the Subcommittee on April 20. Three issues were left open and a May Finance Letter was submitted by the Department.

Vote-Only Issues

1. **Freeway Services Patrol – Reimbursement (April Finance Letter).** The Administration requests an ongoing increase in reimbursement authority of $800,000 to reflect the CHP's component of the Department of Transportation's (Caltrans) Freeway Services Patrol program. Coinciding with this request, Caltrans April Finance Letter #6 is requesting an increase in expenditure authority of $6.2 million to expand the program.

   Staff Comment: The Caltrans request includes permanent funding of $6.2 million for the Freeway Service Patrol program. Of the amount requested, $800,000 would be directed to the California Highway Patrol, for their administration of the program. The remaining $5.4 million would fund an additional 108,000 tow-truck hours and assist approximately 90,000 motorists. By clearing disabled vehicles more quickly, this program relieves traffic congestion.

   Staff Recommendation: Conform to the vote taken on Caltrans Issue # 7 on page 20, but also modify the CHP request to authorize 5 positions, so the workload can be accomplished by dedicated officers instead of overtime resources.

   Vote:

2. **Elihu Harris State Building – Reimbursement (May Finance Letter).** The Administration requests an ongoing increase in reimbursement authority of $509,000 to reflect the CHP's component of the Department of General Services (DGS) security upgrade at the Elihu Harris State Building in Oakland. Coinciding with this request, a DGS May Finance Letter is requesting an increase in expenditure authority of $1.1 million in 2006-07 and $949,000 ongoing.

   Staff Comment: On March 28, 2006, the CHP updated the Site Security Assessment of the Elihu Harris Building. The new security recommendations include the installation of magnetometers and x-ray equipment as well as having a visible presence of uniformed CHP officers to oversee the current staff of security guards.

   Staff Recommendation: Conform to the vote taken on DGS's May Revise Letter.

   Vote:

Discussion / Vote Issues

1. **Additional 9-1-1 Call Center Dispatchers (BCP #7).** The Administration requests $6.4 million (Motor Vehicle Account) for the partial-year cost of 173 new positions to staff the 9-1-1 call centers – specifically, 156 Public Safety Dispatcher II positions and 17 Supervisor positions are requested. Full year cost for these positions in 2007-08 would be $10.5 million.

   Detail: In additional to the 173 positions, the BCP indicates that the Department may need to add an additional 156 positions in 2007-08. The base level of Dispatcher/Supervisor staffing is 325. <u>The CHP indicates that the authority for the additional 156 positions in 2007-08 is not included in this request; therefore, a separate BCP will be submitted next year if the Administration decides to move ahead with the full staffing plan</u>.

   August 2004 State Auditor's Report: The State Auditor touched on 911 staffing in its report, *Wireless Enhanced 911: The State Has Successfully Begun Implementation, but Better Monitoring of Expenditures and Wireless 911 Wait Times is Needed*. The Auditor had the following four findings related to the CHP:

   - Most CHP centers do not have systems to monitor how long they take to answer 911 calls, and more than half the centers that tracked wait times did not meet the State's goal to answer 911 calls within 10 seconds. (Staff note: the CHP has had call tracking technology at all of its 911 call centers since November 2005).
   - Wait times were high, in part, because dispatchers at CHP centers handled significantly more 911 calls per dispatcher than did local answering points we contacted.
   - Unfilled dispatcher positions at CHP centers contributed not only to longer wait times but also to significant overtime costs for the CHP.
   - The CHP does not expect the number of wireless 911 calls diverted to local answering points to exceed 20 percent statewide.

   LAO Recommendation: The LAO now recommends approval of this request - In the February *Analysis of the 2006-07 Budget Bill*, the LAO recommended that the proposal for new call center staff be held open, and that the Administration resubmit the proposal with the May Revision. The LAO suggests the new proposal be based on the automated call-accounting data for all medium and large centers and that other center-dependent variables also be taken into consideration. The CHP has since submitted updated call center detail that provides additional justification for the Finance Letter request.

   Staff Recommendation: Approve the request.

   Vote:

2. **Enhanced Radio Communications (BCP # 2).** The Administration requests approval of a five-year project with a total cost of $494 million (all Motor Vehicle Account, $57.1 million would be expended in 2006-07) to replace the CHP's radio communications hardware and software.

Detail / Background:

- **Identified Problem:** The CHP indicates its current radio system is 25 years old and replacement parts are not available because they are no longer being manufactured. Additionally, the CHP cannot custom order new parts because the system is proprietary. The identified risk of keeping the existing system is communications outages when equipment fails. To the degree failed equipment is replaced with new technology on an ad-hoc basis, new risk is created for communication breakdowns between new and old technologies. Another identified problem is that the current system constrains the addition of new frequencies to improve operability (within the CHP) and inter-operability (CHP communications with other State, federal and local entities).
- **Improvements with the Proposed System:** The Department indicates the proposed system would use open architecture and proven technology, and there is little risk the system would not work. Additionally, the CHP cites the following improvements with the proposed systems:
  - Allow Communications Centers to separate the emergency and non-emergency operations during peak and critical times.
  - Enable radio interoperability with other public safety agencies without impacting normal patrol operations.
  - Provide the Communications Centers the ability to communicate with any CHP mobile unit anywhere in the state.
  - Allow for additional operational channels for radio interoperability with allied agencies.
  - Provide Officers the ability to communicate at a greater distance away from their enforcement vehicles (from 400 to 500 feet to one to two miles with the new system).
- **Implementation Strategy**: The BCP identifies four main categories of activity over the five-year implementation:
  - Replace patrol vehicle equipment at the pace of two districts per year beginning in 2006-07. The annual cost is approximately $34 million ($167 million total).
  - Replace portable equipment in three years, beginning in 2006-07. The annual cost is approximately $16 million ($50.1 million total).
  - Replace tower equipment and erect new towers. The Department of General Services would assess this need in 2006-07 along with other oversight activities at a cost of $6 million. New equipment would be purchased and installed in 2007-08 through 2010-11 at a total cost of $211 million.
  - DGS design and oversight. The five-year cost is estimated at $66 million.

- **Statewide Strategic Communications Plan:** The State has been working for over a decade to design a comprehensive emergency-communication system. In 1994, the CHP, along with nine other public safety agencies and the Department of General Services (DGS), initiated a study called Public-Safety Radio Integrated Systems Management (PRISM). The PRISM effort produced a cost estimate of $3.5 billion in 1997. The high cost delayed action and technology continued to change. Currently, the Office of Emergency Services chairs the Public Safety Radio Strategic Planning Committee (PSRSPC). In January 2006, the PSRSPC released a status report which is the "first phase in the strategic plan for a newly envisioned statewide approach." The January report supports a phased approach with "immediate stop-gap solutions," including the CHP's proposal. The PSRSPC will release the new Statewide Strategic Plan in January of 2007. However, the Office of Emergency Services indicates that the January 2007 plan will not conflict with this year's CHP request.
- **Risks and Unknowns:** In addition to the risks associated with maintaining the current CHP system, there are risks and unknowns associated with the proposed system.
  - The system is not classified as an "IT system" and therefore a Feasibility Study Report (FSR) was not prepared. The technical detail provided to date does not match that of an FSR.
  - The CHP has contracted out with a private vendor to examine the proposed enhancements and sample a limited number of towers and equipment. This review is not expected to be completed until April 28, 2006. The conclusions of the review could result in changes to the plan and cost estimates.
  - The BCP indicates the cost of new towers and new tower equipment will be $210 million; however, DGS will not complete a full survey of the approximately 300 remote radio sites until the end of 2006-07. Therefore the $210 million cost estimate is subject to change.

Staff Comment: The CHP's existing system is old, risks failure, and inhibits improvements. There are also multiple risks and unknowns with the proposed system, which may alter cost estimates in the future. The Subcommittee may want to add budget bill language that would require annual reporting as the project is implemented. Review of this project has brought to light that public-safety radio communications projects are exempt from the State's information technology reporting requirements – such as a Feasibility Study Report (FSR). The Subcommittee may want to adopt placeholder trailer bill language to require FSR-type document for future radio communications projects. The placeholder language additionally cites the intent of the Legislature that Public Safety Radio Strategic Planning Commission reviews the plans for consistency with Statewide Integrated Public Safety Communications Strategic Plan. The suggested language for both is under the Staff Recommendation on the following page.

LAO Recommendation: The LAO has identified an estimating error that overstates 2006-07 costs by $760,000 for the Independent Verification & Validation (IV&V) vendor. The Administration concurs with the need for this correction.

Consultant Draft Report: The CHP recently provided a draft report from Westin Engineering Inc., which evaluates the CHP's radio plan. The report appears to generally support the project. It did, however, raise some cost concerns. Westin assessed ten radio towers and found that, there is insufficient room in most of the radio vaults and on most of the towers currently being used by the CHP. And, most of the existing towers are not tall enough to provide the vertical separate between antennas. This raises concerns over the cost estimates and timelines for work related to remote site vaults and towers. The CHP may be able to provide additional information on this issue by the time of the hearing.

Staff Recommendation: Approve the request but reduce the amount by $760,000 to correctly budget for the Independent Verification & Validation vendor. Additionally, adopt budget bill language to require annual reporting for this project, and placeholder trailer bill language to require a technical project plan for future public-safety radio communications projects.

Budget Bill Language:
Provision (1) of Item 2720-001-0044: Of the amount appropriated in this item, $56,380,000 is for 2006-07 costs of the California Highway Patrol Enhanced Radio System. On March 1, 2007, and annually thereafter until the project is fully implemented, the department shall report to the appropriate fiscal and policy committees of the legislature and the Legislative Analyst on the status of the project. At a minimum, the report shall include: (a) a revised estimate of total project costs and activities, by fiscal year, including separate reporting on the categories of mobiles, portables, remote site equipment, Department of General Services costs, and other; (b) a description of any changes in the project scope included the type and number of hardware units needed, and changes to the frequencies used; and (c) a description of any adverse affects to interoperability caused by changes in usage of new technology by local agencies or other state agencies.

Placeholder Trailer Bill Language:
Public safety radio systems are technical in nature, and require adequate planning to ensure (a) responsiveness to a department's operational needs, (b) compatibility with statutory equipment standards, (c) consistency with the statewide interoperability strategic framework, and (d) appropriate project management and cost controls. Any proposal for state funding to support a new or modified radio system should be accompanied by a technical project plan that includes the following: scope of the project, alternatives considered, justification for the proposed solution, project implementation plan, proposed timeline, and estimated costs by fiscal year. The Public Safety Radio Strategic Planning Committee shall review the plans for consistency with Statewide Integrated Public Safety Communications Strategic Plan. The Department of General Services, Telecommunications Division, shall review the plans, from a technical basis, for consistency with the Statewide Integrated Public Safety Communications Strategic Plan.

Vote:

1110 / 1111 Department of Consumer Affairs

The Department of Consumer Affairs Boards and Bureaus provide exams and licensing, enforcement, complaint mediation, education for consumers, and information on privacy concerns.

The issues listed below are cross-cutting issues that involve multiple Boards or Bureaus. Issues that relate to a single Board or Bureau are discussed under the heading of the individual Board or Bureau in the pages that follow.

Discussion / Vote Issues

1. **iLicensing Information Technology Project (BCP #1, April Finance Letter, Control Section 4.55).** The Administration requests $11.2 million over four years for an IT project with a total cost of $14.3 million (including redirected funds of $3.1 million and credit card processing fees of $1.4 million). Additionally, the Department requests 8.0 permanent positions for the project (increasing to 13 positions in 2008-09). The project would replace the existing on-line Professional Licensing system with a new iLicensing system. The existing system serves seven DCA licensing entities, but cannot be expanded to include the remaining 31 programs. The April Finance Letter adjusts the 2006-07 funding and positions to tie to an updated project schedule. Additionally, the Finance Letter requests to delete proposed Control Section 4.55, which provides authority to distribute costs and adjust Board and Bureau budgets for the cost of the project – instead, Board and Bureau budgets would be individually adjusted in the budget bill.

   Detail: The Feasibility Study Report (FSR) notes that DCA receives over 300,000 applications for professional licensure each year. Seven of 38 DCA licensing entities allow applicants to apply on-line, while the remaining 31 entities use paper applications. The on-line system would speed notification to initial applicants concerning whether their application is complete or deficient. The FSR indicates renewal applicants are anticipated to see a reduction in processing time from about 5 weeks to approximately 7 days. The Department of Finance letter approving the FSR notes that this project has an oversight criticality rating of "high."

   The FSR lists benefits including processing efficiencies that reduce staff hours by about 26,500 hours, which would translate into a staff reduction of about 15 clerical positions. The BCP requests 13.0 new permanent positions (added over two years) for information technology functions. However, no future staff reductions are associated with this proposal because the DCA indicates clerical staff would be redirected to other backlogged projects or workload growth, and IT staff may be needed on an ongoing basis.

   The Finance Letter also requests budget bill provisional language (note, the below language has been slightly revised from what was in the Finance Letter, but revisions are supported by the Department of Finance):

Provision 2. The Department of Consumer Affairs shall report to the Department of Finance and the Joint Legislative Budget Committee at the conclusion of the iLicensing project, but no later than September 1, 2009, on the status of the project including implementation by boards and bureaus, funding allocations, preliminary usage information among new/existing licensees, and a workload analysis for the positions established to support this project. The Department of Finance may eliminate any position established in the 2006 budget, which supports the iLicensing project, if the workload cannot be justified by the report. In addition, in no case may a fee increase be imposed to support this project.

Staff Comment: As noted in the "Detail" section above, the FSR indicates efficiencies savings of over 26,000 staff hours. This efficiency savings comes from applicants using web-based systems to apply, receive information, and submit payments. At the level of 26,000 hours of saved time, the project might produce ongoing cost savings in the range of $1.0 million. This issue was discussed at the May 10 hearing and the issue was left open. The Administration is agreeable to adding the following budget language to try to capture the efficiency savings in the future budgets:

Provision 3. In recognition of operational efficiencies resulting from the implementation of the iLicensing information technology project by participating boards, bureaus, and divisions at the Department of Consumer Affairs, a Department-wide budget reduction in the amount of $500,000 (special funds) will be effectuated in FY 2009-10 and ongoing. However, to the extent that additional resources are needed to protect California consumers, boards, bureaus, and divisions may pursue budget augmentations through the annual budget process.

Staff Recommendation: Approve the April Finance Letter request, with the addition of budget bill provision 2 and provision 3. (Approval would include deletion of Control Section 4.55 and other related changes to the budgets of specified Boards and Bureaus).

Vote:

1880 State Personnel Board

Discussion / Vote Issues

1. **Examination and Certification Replacement Project (April Finance Letter).** The Administration requests 2006-07 funding of $2.5 million (General Fund) and 2 positions (1 permanent and 1 limited term) for an information technology project to replace the State's Exam and Certification system. The Feasibility Study Report (FSR) identifies total project funding of $5.3 million over four years, with continuing costs in 2009-10 and thereafter at $553,000.

   Detail / Background: The State Personnel Board (SPB) currently provides an automated examination system to subscribing departments and issues certification lists of individual's eligible to be hired into specific classifications within State departments. The examination process determines which applicants are qualified for specific classifications. The certification process refines the eligible list based on job specific categories.

   The Current Examination and Certification system was built over 30 years ago and has been updated sporadically to comply with legal requirements. The FSR indicates that "due to California's heavy dependence on the existing aging systems, accompanied by the steady rise in maintenance activities and the retirement of experienced support personnel, the greatest risk to merit-based civil service in the State of California results from not replacing the current system."

   The SPB contends that this new system will provide easy access, rapid turnaround, make examinations more automated, and perform pre-screening of applicants so the neither their time, nor state staff time, are wasted on applicants that cannot meet the minimum qualifications.

   Staff Recommendation: Approve the request.

1920 State Teachers' Retirement System

The State Teachers' Retirement System (CalSTRS) was heard, by the Subcommittee on March 20. One issue was left open and one May Finance Letters was submitted by the Administration.

Discussion / Vote Issues

1. **Submission of Budget Information.** CalSTRS, in the past, submitted Budget Change Proposals (BCPs) in January with other State departments. This year, no BCPs were submitted. Staff requested BCP documents, which were provided, but they contain less fiscal and narrative detail than a typical BCP.

   Staff Comment: This issue was heard at the March 22, 2006, hearing and left open. CalSTRS has since indicated that it will provide standard Budget Change Proposals (using Department of Finance Budget Form "DF-46" or its successor) next January 10th, and thereafter. The BCPs will be provided to the Consultants in the Senate and Assembly Budget Committees, minority fiscal Consultants, and the Legislative Analyst, through the Department of Finance.

   Staff Recommendation: No action is necessary – CalSTRS has agreed to provide standard BCP documents next year and thereafter.

2. **Technical Corrections (May Finance Letter).** The Administration requests a decrease of $119.5 million to the CalSTRS General Fund appropriation to correct for an error recently discovered in the CalSTRS accounting system, which resulted in the State overpaying CalSTRS by a net of $119.5 million above the statutory formulas in 2003-04 through 2005-06. Trailer bill language is requested to implement this proposal. Additionally, the Administration requests $882,000 reduction to the CalSTRS General Fund appropriation to reflect CalSTRS revised estimate of teacher compensation.

   Staff Comment: Staff understands that CalSTRS requested the State Controller's Office to implement a similar payment adjustment administratively.

   Staff Recommendation: Approve the request.

   Vote:

Department of Personnel–Related Public Employment Issues

8380 Department of Personnel Administration

The Department of Personnel Administration (DPA) was heard by the Subcommittee on March 20. One issue was left open and one May Finance Letters was submitted by the Administration.

Vote – Only Issue

1. **Human Resource Management System – 21st Century Project (April Finance Letter).** The Administration requests a decrease in the Department's 2006-07 budget of $48,000 (reimbursements) for the to reflect an adjusted workload estimate for the Human Resource Management System – 21st Century Project, which is primarily managed and staffed by the State Controller's Office (SCO). The Finance Letter also requests to convert seven one-year limited term positions to two-year limited term. Approval of this request would reduce the 2006-07 funding from $631,000 and 8.0 positions to $583,000 and 7.0 positions.

   Staff Comment: The Subcommittee approved the related SCO request on May 11.

   Staff Recommendation: Conform to action taken SCO – Approve the request.

   Vote:

Discussion / Vote Issues

2. **Salary Survey Budget Language.** In last year's Conference Committee, the Administration proposed and the Legislature approved $573,000 to fund surveys comparing the total compensation of state workers with those of other public sector and private sector workers. The Department of Personnel Administration released a "preliminary report" on total compensation on April 21, 2006. The report indicates that the administration intends to continue conducting surveys and research concerning total compensation.

   LAO Recommendation: The LAO recommends that the Legislature adopt budget bill language similar to that included in the 2005 Budget Act. The LAO suggests the following provisional language for the Department of Personnel Administration, Item 8380-001-0001:

   The Department of Personnel Administration may use funds appropriated in this item to complete comprehensive salary surveys that include private and public employers, geographical data, and total compensation. The department shall provide to the appropriate fiscal and policy committees of each house of the Legislature and the Legislative Analyst, within 30 days of completion, each completed salary survey report.

   Staff Comment: Staff understands the Administration does not object to the language.

   Staff Recommendation: Approve the LAO language.

9800 Augmentation for Employee Compensation

This budget item includes funding for pay and benefit increases for those costs that exceed the baseline costs already included in individual department budgets. This budget item was heard by the Subcommittee on March 20 and was kept open pending the May Revision.

Discussion / Vote Issues:

1. ***Plata v. Schwarzenegger* Lawsuit (Governor's Budget and May Revision).** The Governor's Budget requested funding of $68 million ($57 million General Fund) to increase the pay of State-employed doctors and nurses. A May Revision Letter requests a General Fund increase of $25.2 million and a special fund decrease of $10.7 million based on new Department of Personnel Administration (the new totals are $82.4 million General Fund, $340.000 Special Fund). The *Plata* case concerns constitutional violations related to medical care in State correctional facilities. On December 1, 2005, the federal judge in the case ordered the State to immediately increase compensation for several classes of prison medical personnel. While the Administration must comply with *Plata* for the Department of Corrections and Rehabilitation, the Administration has made a discretionary choice to extend the same salary increases to doctors and nurses in the Department of Mental Health.

   Staff Comment: The Legislature has approve section letters to increase funding in 2005-06 related to *Plata* costs at both the Department of Corrections and Rehabilitation and the Department of Mental Health.

   Staff Recommendation: Approve the Governor's Budget and May Revision funding related to the *Plata* lawsuit.

   Vote:

2. **Adjustments based on Contractual Provisions (May Finance Letter).** The Administration requests the following budget augmentations that related to existing contractual obligations as agreed to between bargaining units and the Administration, and adopted by the Legislature through implementing legislation:
   - An increase of $8.4 million ($8.2 million General Fund) for health care costs (Unit 7 – California Union of Safety Employees, and Unit 18 – California Association of Psychiatric Technicians).
   - An increase of $47.5 million (General Fund) for salary increases (Unit 6 – California Correctional Peace Officers Association).
   - An increase of $7.8 million (special Fund) for salary increases (Unit 5 – California Highway Patrol).

   Staff Recommendation: Approve the request.

   Vote:

3. **Transfer Authority between 9800 Budget Items (April Finance Letter).** The Administration requests the addition of budget bill language to allow the transfer of appropriation authority between the Special Funds appropriation and the Non-Governmental Cost Funds appropriation. This action would not permit increasing the overall amount appropriated for employee compensation but would allow the Department of Finance to avoid submitting section letters to the Legislature when the appropriations do not match department requests by fund type.

   Staff Recommendation: Approve the request.

   Vote:

CalPERS–Related Public Employment Issues

1900 Public Employees' Retirement System

The Public Employees' Retirement System (CalPERS) was heard by the Subcommittee on March 20 and was kept open pending budget changes with the May Revision.

CalPERS also determines the rates for Budget Item 9650 – Health and Dental Benefits for Annuitants, and Control Section 3.60 – The State's Retirement Contribution Rates. These two budget items will be heard directly after the CalPERS budget.

Vote only issues:

1. **GASB 45 Compliance (April Finance Letter):** CalPERS requests one-time funding of $2.9 million (special fund) to assist contracting agencies comply with the requirements of Governmental Accounting Standards Board Statement Number 45 (GASB 45). GASB 45 requires public employers to calculate and report Other Post-Employment Benefits (OPEB) liabilities, such as unfunded retirement healthcare liabilities, in financial reports. CalPERS will assist contracting agencies by providing the health data necessary to complete the health actuarial valuation necessary to calculate their health benefit liability. The assistance would be provided through external consulting services – no new state positions are requested.

   Staff Recommendation: Approve the request.

   Vote:

2. **Adopted Board's Budget (May Finance Letter):** CalPERS requests various budget adjustments to reflect the final budget adopted by the Board. With the exception of certain health-related appropriations, the rest of CalPERS state operations budget is continuously appropriated and included in the budget bill only as a "non-add" for informational purposes. The requested adjustments only affect the "non-add" budget appropriation and would update the budget bill to accurately reflect the Board-adopted CalPERS budget. The adjustments net to an increase of $9.3 million, and with the April Finance Letter Requests, result in a total state operations budget of approximately $268 million.

   Staff Recommendation: Approve the request.

   Vote:

Discussion / Vote Issue:

1. **Medicare Part D Positions (April Finance Letter):** CalPERS requests permanent funding of $439,000 to establish 5.5 positions and one-time funding of $50,000. These positions would address CalPERS workload related to implementing Medicare Part D, which is the federal program that established a prescription drug benefit for Medicare eligible individuals. This request will allow CalPERS to process requests for nearly 96,000 Medicare Part D eligible members and will generate approximately $54 million in federal subsidies for the benefit of state and contracting agencies.

   LAO Recommenation: The LAO recommends that CalPERS' Medicare Part D staffing finance letter be sent to Conference. At this week's CalPERS board committee meetings, board members will consider a staff recommendation for the system not to apply for Part D employer drug subsidies after 2006. This would mark a significant change in policy from that contemplated in the finance letter and from that envisioned by the Legislature when it enacted legislation (Chapter 527, Statutes of 2005 [AB 587, Negrete McLeod]) concerning Part D enrollment by CalPERS members.

   The federal government created the Part D subsidies to encourage employers, such as the state, to continue offering drug benefits to retirees, and this possible action by CalPERS could deny the Legislature of the ability to use approximately $39 million in annual Part D subsidy revenues in the manner it sees fit. One possible use for these funds would be to reduce the state's unfunded retiree health care liability. Credits for future Part D subsidies reduced the State of Maryland's reported unfunded retiree health liability by 11 percent; for the State of California, this could potentially translate into billions of dollars of unfunded liabilities.

   By conference, we should know the disposition of the CalPERS board toward this staff recommendation and the administration's revised proposal, if any, based on the possible change in policy. We believe that budget bill language may eventually be advisable to guide the use of any staff resources.

   Staff Comment: Assembly Subcommittee 4 has already approved this letter. Approving this request with a funding reduction of $1,000 would put this issue into Conference.

   Staff Recommendation: Approve the Finance Letter minus $1,000 to put this issue into Conference.

   Vote:

9650 Health and Dental Benefits for Annuitants

The Health and Dental Benefits for Annuitants budget item provides the State's contribution for the cost of a health benefits plan and dental care premiums, for annuitants and other employees, in accordance with requirements of Government Code. The cost of this benefit is estimated by the California Public Employees' Retirement System (CalPERS). The budgeted amount is $1.0 billion (all General Fund – although the State recovers about one-third of these costs from special funds through pro rata charges) – an increase of $124.2 million (14 percent) from the current year. According to the LAO's *Analysis of the 2005-06 Budget Bill*, the increase reflects growth of 4.7 percent in enrollment and growth of 9.5 percent in health care inflation.

According to CalPERS, this expenditure forecast will be updated in June, after contract negotiations with health plans are completed. The budget bill is updated to reflect the new estimates through a Department of Finance technical correction, upon approval by the Legislature.

Staff Recommendation: Approve as budgeted.

Vote:

Control Section 3.60 Contributions to Public Employees' Retirement Benefits

The California Public Employees' Retirement System (CalPERS) agenda for the May 16 Benefits and Program Administration Committee includes the new State retirement contribution rates for 2006-07. The new rates represent an increase of $182 million in State costs relative to the amounts assumed with the Governor's Budget. The exact General Fund share is not available from the Administration; however, the LAO indicates that based on typical proportions, the General Fund share may be about $100 million. These costs were not included in the May Revision of the Governor's Budget.

Control Section 3.60 of the budget bill specifies the contribution rates for the various retirement classes of State employees in CalPERS. This Control Section also authorizes the Department of Finance to adjust any appropriation in the budget bill as required to conform to changes in these rates. The Governor's Budget estimated the State's contributions to CalPERS in 2006-07 at $2.5 billion ($1.4 billion General Fund) – an increase of $54 million over 2005-06.

Category	Governor's Budget	New Rates
Miscellaneous, First Tier	15.942%	16.997%
Miscellaneous, Second Tier	15.890%	16.778%
State Industrial	17.147%	17.861%
State Safety	19.026%	19.294%
Highway Patrol	26.396%	31.463%
Peace Officer / Firefighter	23.563%	24.505%

Staff Comment: These rates will not be officially approved until approved by the full board on May 17. Since final action by the CalPERS Board and the resulting detail from the Administration will not be available during the subcommittee process, Staff recommends the Subcommittee take action to keep put this issue into Conference. Recommend adopting the new rates (the Assembly is expected to adopt the Governor's Budget rates)

Staff Recommendation: Approve the Control Section with the new rates indicated in the above table.